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SUBJECT: PUSHING FOR TRANSPARENCY ON MEDICAL DEVICE  
TENDERING AND BIDDING PROCESS

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11. (SBU) Summary. Embassy FCS officers and Econoff met with Ministry of Health (MOH) Department of Planning and Finance Director General Zhao Zilin and MOH International Health Exchange and Cooperation Center (IHECC) Centralized Purchasing Office Director Li Ling on July 24 to push for greater transparency in the medical device tendering and bidding process in China. DG Zhao explained MOH and NDRC's regulatory role in the medical device tendering and bidding process and suggested further technical discussions be held by experts on both sides at a later unspecified date. End Summary.

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BACKGROUND  
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12. (SBU) United States Department of Commerce (DOC) Under Secretary (U/S) Christopher Padilla sent a letter dated June 5 to China's Vice Minister of Health Chen Xiaoheng requesting MOH postpone its June 10 scheduled national tender for medical devices in lieu of United States industry concerns regarding lack of clear and transparent guidelines in the tendering and bidding process. VM Chen's June 19 dated response letter indicated MOFCOM would not postpone its scheduled national tender, but referred Embassy staff to meet with Ministry of Health officials to discuss United States industry concerns further.

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Same Equipment, Different Prices  
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13. (SBU) Ministry of Health (MOH) Department of Planning and Finance Director General Zhao Ziin admitted to FCS officers and Econoff on July 24 that China's current tendering and bidding process is not "perfect", and acknowledged that different prices for medical products with the same specifications sold in different hospitals across varying regions, and challenges in regulating that market is a concern not only for United States industry, but also for MOH. He cited for example, that the same radiation knife sold for RMB 35,000 (USD 5,147) in a

hospital in Shanghai is sold for RMB 50,000(USD 7,353) in Guangxi Province, a difference of RMB 15,000 (USD 2,205). Zhao stated that MOH IHECC's centralized purchasing of high value medical devices started only half-a-year ago, that it is the first time MOH has conducted a centralized tender, and that MOH is interested in continuing to learn from the United States and industry on best practices. Zhao welcomed Embassy staff recommendations that further technical exchanges occur between experts on both sides to discuss how the United States enforces and ensures regulatory transparency in the tendering and bidding process.

¶4. (SBU) Zhao explained that IHECC is tasked with centralized purchasing of high value medical devices and is responsible for formulating methodologies to ensure that appropriate price controls are in place to prevent manufacturer's from exorbitantly marking up the price of medical devices. Complicating the process in China, however, is the requirement that regulations adhere to three separate laws - the Tendering and Bidding Law, Government Procurement Law, and MOH's Medical Equipment Purchasing Measures, and the challenge to ensure measures adhere to all three, falls under the International Health Exchange and Cooperation Center (IHECC), Zhao said. He stated that the results of MOH's centralized tender would be released to the public soon and that there would be a standard nationwide price for high value medical devices published and released to domestic hospitals in the near future. He explained that MOH's Medical Equipment Purchasing Measures classify large-scale and high-end

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medical equipment into two categories (A and B). Category A includes new technology and equipment valued over RMB 5 million (USD 735,294) while Category B includes equipment such as MRI, Cat Scanners, Accelerators, and other devices that fall under the various provincial-level departments of health jurisdiction.

¶5. (SBU) Zhao said NDRC is responsible for monitoring prices and controlling the mark-up of prices at the hospital level whereas MOH is responsible for ensuring sufficient price controls are in place at the manufacturer's level. Zhao stated it would be worth discussing regulatory procedures for ensuring standard pricing practices are used across the board and across regions to avoid inordinate mark-ups for medical equipment in the future. When asked about a RMB 1500 (USD 221) tendering fee per item that companies must pay each time they want to sell their product, Zhao stated the fee is usually a one-time fee charged by intermediary agents and brokers. Zhao stated that in the future only operational costs should be charged. Embassy staff emphasized that such "hidden" transaction fees have nothing to do with the price of the equipment itself, unfairly raises the price of equipment, and hence cost of medical services to consumers.

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Non Transparent Review Process  
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¶6. (SBU) MOH International Health Exchange and Cooperation Center (IHECC) Centralized Purchasing Office Director Li Ling stated the method in which they develop a reference price for the tendering process is through a randomly selected review panel of experts that score products. She said before determining product price, the expert panel reviews general quality of products, past sales history, post-sales services and technical support, and scientific advancement. However, she did not specify the composition of the expert committee, what specific "scientific" criteria were being used by the committee to determine price, nor revealed how expert committee scores and evaluations for determining product price were being collected and reviewed.

17. (SBU) Zhao stated that in October, MOH plans to hold a large-scale medical equipment exhibition in Beijing including a technology show in which it plans to discuss regulatory proposals. He also stated that MOH would like to hold a seminar inviting domestic and foreign participants including his MOH counterpart officials at the local level, industry, United States government, and the expert committee to discuss the tendering process further and explore ways to improve it for the future.

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